



The Raid on Student Aid

The Republican Plan to Cut Almost \$9 Billion from the Nation's College Student Aid Programs

The Republican Raid on Student Aid Forces Students and Families to Pay Even More for College

Committee on
Education and the
Workforce

Democratic Caucus

The Honorable
George Miller, Senior
Democratic Member

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CONGRESSIONAL REPUBLICANS TO CUT AT LEAST \$9 BILLION FROM THE NATION'S COLLEGE STUDENT AID PROGRAMS

Early next month, the House of Representatives will vote on a proposal supported by Congressional Republicans to cut at least \$16 billion from the nation's federal college student aid programs. The Senate will also vote on a similar proposal to cut more than \$8 billion from the student aid programs.

- X** This raid on student aid represents the single largest cut in the program's history.
- X** This raid on student aid eliminates vital resources necessary to expand educational opportunities in our country.
- X** It is wrong to force America's college students and their families to pay the price for the irresponsible management of our nation's budget.
- ✓** We should be doing more, not less, to increase affordable college opportunities.

Already, the typical low-income student falls short by \$3,800—and the typical middle-income student falls short by \$2,250—each year when paying for college, even after adding up their savings, work, student aid and family support. The raid on student aid will only widen this gap.

To make matters worse, **under the bills pending before Congress** (H.R. 609, the Republican's higher education bill & the budget reconciliation bill) **the typical student borrower—with \$17,500 in debt—could be forced to pay an additional \$5,800 for his or her student loans** compared to under current law.

In addition, the raid on student aid misses a golden opportunity to re-direct billions of dollars in savings by recycling the excessive subsidies paid to student lenders into additional grant aid for students—without any additional costs to taxpayers.

Democratic Plan Would Make College More Affordable

In contrast, Democrats offered an amendment during the committee consideration of the Higher Education Act reauthorization in July that would have cut billions in excessive subsidies to student lending institutions and used these savings to:

- **Guarantee a \$500 boost to the maximum Pell grant scholarship** over the next five years. Today, the maximum Pell grant is worth \$800 less, in inflation-adjusted terms, than it was worth in 1975-76. The boost would occur in five \$100 steps—with mandatory funds—over the next five years, for a \$4,550 maximum grant by 2010;
- **Give students the choice between either a fixed or variable interest rate** when they consolidate their student loans, and it would do so without raising costs for students; and
- **Keep Congress' promise, made in 2002, to lower the interest rate cap on student loans at 6.8 percent.** In 2002, Democrats and Republicans worked together to lower the cap on student loans to 6.8 percent, to become effective in 2006. The Republican bill reverses that bipartisan agreement and raises student interest rate caps to 8.25 percent.

All of the items in the Democratic alternative would be paid for without adding to the budget deficit, raising costs to students, or costing taxpayers a dime. Republicans rejected the amendment.

THE RAID ON STUDENT AID

INTRODUCTION

Every year millions of hardworking American families and students fall short when paying for college costs, even after grants, loans, family savings and work. The weakened economy, huge tax cuts for the super rich, and massive federal budget cuts have hurt state budgets, driving up tuition prices for students—more than 75 percent of whom attend public institutions.

The typical low-income student at a 4-year public college already falls short by \$3,800, and the typical middle-income student falls \$2,300 short, when paying for college each year.

Rather than helping these students and families, the Republican plan makes students pay even more for their college education. Their bill cuts \$8.7 billion from the student aid programs and fails to significantly boost affordable college opportunities.

“Student aid outlook bleak in Congress” — *Minnesota Star Tribune* editorial, 9/27/05

“Congress is trying to balance the budget on the backs of students,” explains Luke Swarthout, associate with the State PIRGs' Higher Education Project. **“Congress should stop this raid on student aid and focus on making college more affordable and more accessible for millions of struggling students.”** – 9/20/05

“Our federal government has set a plan into motion to drastically decrease aid for students at a time when students need more aid than ever to achieve their higher education goals,” [said U.S. Students Association President Eddy] Morales. – [Proposed loan cuts have students seeing red], *Georgetown Voice*, 9/15/05

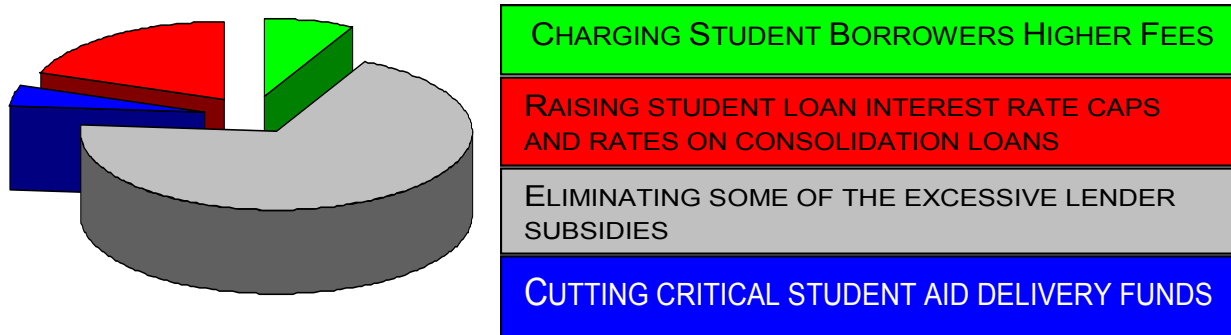
REPUBLICAN RAID ON STUDENT AID MAKES COLLEGE EVEN MORE EXPENSIVE

The Republican bill (H.R. 609) cuts \$8.7 billion from the student aid programs and forces students to pay more for college by:

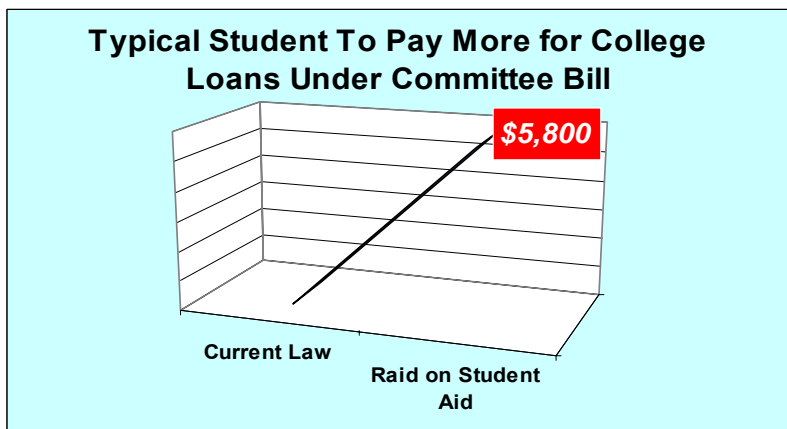
- Raising interest rates on student consolidation loans;
- Raising the interest rate cap on student loans;
- Eliminating borrower benefits that help students lower the cost of borrowing;
- Cutting critical student aid delivery funds; and,
- Eliminating some of the excessive subsidies paid to student lenders.

To make matters worse, the House Republican leadership plans to cut another \$2-7 billion from the student aid programs, in addition to the nearly \$9 billion in cuts already made, in committee this month. A final vote on House floor could include cuts to the student aid programs as high as \$16 billion.

The Raid on Student Aid: Breakdown of the Nearly \$9 Billion in Cuts to the Student Aid Programs



This raid on student aid represents the single largest cuts to the nation's federal student aid programs ever. **As a result of these cuts, the typical student borrower—with \$17,500 in debt—could be forced to pay up to \$5,800 more for his or her college loans, than compared to current law.**



THE RAID ON STUDENT AID

H.R. 609 Makes College More Expensive by Raising Student Loan Interest Rate Caps

In 2002, Congress passed bipartisan legislation to lower the interest rate cap on student loans to 6.8 percent starting in July of 2006. The Republican bill breaks this promise, and raises the cap to 8.25 percent. As a result of raising the interest rates caps alone, the typical student borrower, with \$17,500 in debt, will be forced to pay as much as \$2,600 more for his or her loans.

H.R. 609 Makes Student Borrowers Pay More for Consolidation Loans

The bill allows students to choose a fixed or variable interest rate when they consolidate—but raises the interest rate on fixed consolidation loans by 1.0 percent and forces students to pay a .5 percent fee on fixed consolidation loans. As a result, the typical student borrower will have to pay nearly \$1,800 more for his or her consolidation loan, than under current law.

H.R. 609 Raises Student Loan Taxes

The bill requires guaranty agencies to charge student and parent borrowers a 1 percent insurance tax on their loans. Most guaranty agencies currently waive this tax, but the bill requires borrowers to pay this tax. According the Congressional Budget Office, this change will raise \$3.6 billion over 10 years on the backs of student and parent borrowers.

H.R. 609 also doubles the current 1.5 percent origination fee, or student loan tax, to 3 percent for students who borrow through the Federal Direct Student Loan program. While in the long run the bill eliminates the origination fee for students in the Direct Loan program, it actually raises these fees between 2005 and 2009. As a result, the typical student borrower will have to pay \$265 more for his or her loan.

H.R. 609 Eliminates Critical Borrower Benefits that Encourage On-Time Repayment and Lower Interest Rates

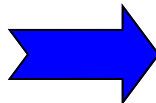
The bill eliminates the Secretary of Education's authority to provide benefits, such as lower interest rates, to student borrowers in the Direct Loan program who make on-time payments. Private banks that participate in the government's other main loan program, the Federal Family Education Loan (FFEL) Program, currently offer similar benefits to their student borrowers.

H.R. 609 also eliminates the in-school consolidation benefit, which allows student borrowers (in both the Direct Loan and FFEL programs) who are still in school or in their six month grace period, to consolidate their loans at a lower interest rate (.6 percent lower). The elimination of this benefit will cost the typical student borrower nearly \$1,000 in additional interest rate charges, compared to current law.

How the Republican Leadership Plans to Spend the Nearly \$9 Billion in Cuts to the Student Aid Programs

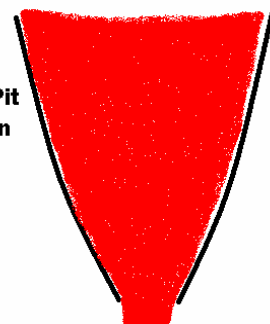


\$9 Billion in Critical Student Aid



\$3.3 TRILLION DOLLARS IN DEBT

**Bottomless Pit
of Republican
Debt**



THE RAID ON STUDENT AID

REPUBLICAN RAID ON STUDENT AID FORCES STUDENTS AND FAMILIES TO PAY FOR THE NATIONAL BUDGET CRISIS

The Majority claims that these cuts must be made in the budget reconciliation process to reduce the federal deficit—yet the budget reconciliation actually increases the federal deficit by \$35 billion over 5 years.

Wrong Direction.

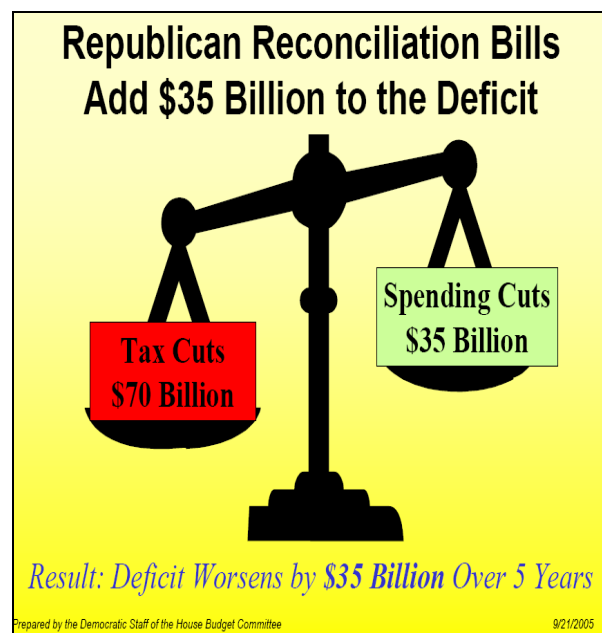
After widespread criticism from Democrats, students and editorial writers, the GOP finally agreed to reduce excessive subsidies to large lending institutions.

But instead of recycling those dollars into low-interest loans and additional grants for low and middle-income students, the GOP plans to use the nearly \$9 billion in cuts—to lender subsidies and student aid—for alleged deficit reduction.

They believed for years it was okay to spend billions in excessive subsidies on profitable banks, but they won't spend this money on students.

This budget scheme places the irresponsible management of our nation's budget on the backs of students and families who are already struggling to pay for college.

We should be doing more, not less, to increase affordable college opportunities not just because it is the right thing to do but because it is critical to the economic prosperity and well-being of the nation.



Since the passage of the Higher Education Act in 1965, Federal grants, loans and work-study have helped to send millions of students to college, many of whom would not have gone to college without federal assistance.

This raid on student aid misses a golden opportunity to re-direct billions of dollars in savings by recycling the excessive subsidies paid to student lenders into additional grant aid for students—without any additional costs to students or taxpayers.

This opportunity is an essential step towards ensuring that all college qualified students receive an affordable top quality higher education and that the U.S. is competitive in the global economy.

THE RAID ON STUDENT AID

RAID ON STUDENT AID IGNORES CRITICAL NEED TO INVEST IN HIGHER EDUCATION TO ENSURE AMERICA'S COMPETITIVENESS IN THE GLOBAL ECONOMY

The investment in increasing access to affordable higher education opportunities has been critical in making the U.S. the world economic leader it is today. However, the global economy has become significantly more competitive since 1965, when Congress first wrote the Higher Education Act.

Whether the U.S. retains its preeminence in this fiercely competitive environment will depend more and more on having a highly skilled workforce. Higher education is the critical tool for building that workforce.

Yet, among full-time students in four-year colleges only 60 percent obtain a bachelor's degree within six years. Graduation rates for African American and Latino students are twenty points below those of white students. Only 54 percent of low-income students obtain degrees, compared to 77 percent of high-income students.

For most low-income, first generation and minority students, financial barriers are the key factor in determining whether or not they will successfully complete college. Unfortunately, H.R. 609 cuts billion in critical funds from the student aid programs and significantly increases the cost of paying for college.

At the same time that the Republican leadership is forcing students and families to pay billions more for college and slamming the doors shut to affordable college opportunities, the U.S. faces a critical skilled worker shortage. The U.S. is expected to experience a shortage of up to 12 million college-educated workers by 2020—directly threatening the nation's ability to compete in the global economy.

While the U.S. was once the leader in bestowing advanced degrees, particularly in fields such as science, math and engineering, the nation is losing its competitive edge.

- Though there are over 1.4 million graduate students in the U.S., Europe now exceeds the U.S. in science and engineering Ph.D. production, and China is poised to do so in the next few years.
- The share of U.S. graduate students in science and engineering is diminishing in part because non-science fields, such as law and business, provide more lucrative workforce opportunities than traditional academic science jobs. China now graduates 4 times as many engineers as the U.S., while the Europe graduates 3 times as many.
- More than 50 percent of the current science and engineering workforce in the U.S. is approaching retirement.

It is critical that President Bush and the Congress make a commitment to significantly boost affordable high quality college opportunities. Unfortunately, the Republican bill, H.R. 609, takes us in the wrong direction—ignoring the immediate need to significantly boost our investment in a highly skilled workforce.

CONCLUSION

American students and families need more affordable college opportunities. Significantly boosting these opportunities is critical to the success of the American economy and the nation's ability to maintain and grow our competitive edge in the global economy.

Not only does this bill fail on this account, but it actually makes the largest single cut to the student aid programs ever. As a result, students will be forced to pay thousands of dollars more for college.

This bill, squanders a rare chance to re-deploy billions of dollars, saved through cuts to excessive lender subsidies, toward boosting grant aid and lowering the cost of borrowing to students.

American colleges and universities play an instrumental role in not just individual students' abilities to prosper and contribute to our society but in our overall national security and economic strength. These unprecedented cuts will jeopardize the ability of the nation's colleges and universities to train new leaders in math, science, engineering, K-12 education, and technology to ensure our global competitiveness.

Rather than advance this partisan legislation, which is opposed by students, colleges, and consumer groups alike, we should be focused on increasing affordable college opportunities to all Americans.

In contrast, Democrats would make college significantly more affordable by:

- Guaranteeing a \$500 boost to the maximum Pell grant scholarship over the next five years;
- Giving students the choice between either a fixed or variable interest rate when they consolidate their student loans, without raising costs for students or imposing new fees; and,
- Keeping Congress' promise, made in 2002 to lower the interest rate cap on student loans to 6.8 percent.

The Democratic plan would be paid for without adding to the budget deficit, raising costs to students, or costing taxpayers a dime.

STOP THE RAID ON STUDENT AID

For more information visit:

<http://edworkforce.house.gov/democrats/>

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RESOURCES & ADDITIONAL INFORMATION

INFORMATION ON THE WEB:

<http://www.studentaidaction.org>

<http://www.studentaidalliance.org>

<http://www.usstudents.org>

GROUPS:

The United States Student Association

Contact: Jasmine Harris, Legislative Director
(202) 347-8772

leg@usstudents.org

The State PIRGs' Higher Education Project

Contacts: Chris Lindstrom, Director
Luke Swarthout, Associate

(202) 546-9707

Chris.lindstrom@pirg.org

lswarthout@pirg.org

The United Negro College Fund

Contact: Cheryl Williams
(202) 737-8623

Cheryl.williams@uncf.org

Hispanic Association of Colleges and Universities

Contact: Luis F. Maldonado
(202) 833-8361

lmaldonado@hacu.net

SELECT STUDENT AID REPORTS:

Trends in Student Aid 2004, The College Board

http://www.collegeboard.com/prod_downloads/press/cost04/TrendsinStudentAid2004.pdf

Trends in College Pricing 2004, The College Board

http://www.collegeboard.com/prod_downloads/press/cost04/041264TrendsPricing2004_FINAL.pdf

The Investment Payoff: A 50 State Analysis of the Public and Private Benefits of Higher Education,
Institute for Higher Education Policy

<http://www.ihep.org/Pubs/PDF/InvestmentPayoff2005.pdf>

Easy Money, How Congress Could Increase Federal Student Aid Funding at No Additional Cost to Taxpayers, The State PIRGs

<http://www.pirg.org/highered/highered.asp?id2=7906>

State Merit Scholarship Programs and Racial Inequality, The Civil Rights Project, Harvard University

http://www.civilrightsproject.harvard.edu/research/meritaid/report04/2covertoc_ack_foreword.pdf

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